

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF SOUTH CAROLINA
GREENVILLE DIVISION**

GRAPHIC SECURITY SYSTEMS)	
CORPORATION,)	
)	C.A. NO. 6:08-4034-HFF-KFM
Plaintiff,)	
)	
v.)	
)	CONSENT ORDER GRANTING
NAUTILUS SECURITY,)	MOTION TO SEVER AND STAY
)	NAUTILUS SECURITY'S
Defendant.)	DEFAMATION COUNTERCLAIMS
_____)	

This matter comes before the Court on Graphic Security Systems Corporation's ("Graphic") motion to sever and stay Nautilus Security's ("Nautilus") Defamation Counterclaims (i.e., Counterclaims III-V) (Docket 79) until the conclusion (including exhaustion of all appeals) of both Graphic's affirmative patent infringement claims in this action and the defamation case brought in Northern Ireland by Nautilus's Chairman, Ralph Chalmers. Nautilus consents to this motion.

Nautilus's Chairman and Controlling Shareholder, Mr. Ralph Chalmers, has filed a personal lawsuit in Northern Ireland, asserting similar defamation claims to those Nautilus has filed in Counterclaims III-V in this action. See Exhibit A. The Northern Ireland suit was filed on June 17, 2010 against Graphic and its President Thomas C. Alasia. Graphic and Mr. Alasia were served with a summons of that action on July 22, 2010. The suit alleges that Graphic and Mr. Alasia have defamed Mr. Chalmers based upon statements made in a Graphic press release. Specifically, Mr. Chalmers' complaint in the Northern Ireland action alleges: "The Plaintiff's claim is for damages for libel contained in a press release issued on 16 December 2008 bearing the heading 'G.S.S.C. sues Nautilus Security for patent infringement,' which press release

continues to be published on the internet by, inter alia, prnewsire.co.uk, redorbit.com, investigate.co.uk, graphicartsonline.com and smartbrief.com.”

Graphic’s Press Release. On December 16, 2008, Graphic filed this patent infringement lawsuit against Nautilus, alleging that Nautilus is infringing Graphic’s United States Patent No. 7,466,876 (“the ‘876 Patent”), used to generate encoded images for document and product authentication. The same day, Graphic issued a Press Release announcing that it had filed suit against Nautilus and quoting Graphic’s President, Thomas C. Alasia, as saying, “It is very disturbing to find out that companies who are in the business to protect against counterfeiting are themselves misusing others’ intellectual property On several occasions, GSSC contacted Nautilus to discuss this matter, but they refused, potentially putting itself and its clients at risk GSSC offers a wide range of security products and only sells official licensed product. Our customers can trust the integrity of our products.”

Nautilus’s Defamation Counterclaims. On March 16, 2009, Nautilus filed its Answer, Affirmative Defenses and Counterclaims. The counterclaims seek relief, in part, based upon two statements made by Graphic in the Press Release. Specifically, Count III alleges Defamation/Libel, Count IV alleges Tortious Interference with Prospective Business Relations, and Count V alleges Unfair Trade Practices. These counterclaims remain in Nautilus’ Amended Answer Affirmative Defenses and Counterclaims filed August 24, 2009. (Docket 79).

Current State of This Action. Discovery in this action is not complete, but the associated deadlines have been stayed pending the outcome of Markman proceedings. Only minimal discovery has been taken on Nautilus’s defamation counterclaims.

Requested Relief. Graphic respectfully requests, with Nautilus’s consent, that the Court sever and stay Nautilus’s Counterclaims III, IV and V until the conclusion (including all appeals)

of Graphic's affirmative patent infringement claims in this action and the defamation case brought in Northern Ireland by Nautilus's Ralph Chalmers.

For these reasons GSSC's motion to sever and stay (Docket No. 249) is granted.

AND IT IS SO ORDERED.

August 10, 2010
Greenville, South Carolina

s/Kevin F. McDonald
United States Magistrate Judge